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Reasonable per-kilometre allowance

If you pay your employee an allowance based on a per-kilometre rate that is considered reasonable, **do not deduct** CPP contributions, EI premiums, or income tax.

The per-kilometre rates that the CRA usually considers reasonable are the amounts prescribed in section 7306 of the Income Tax Regulations.

Although these rates represent the maximum amount that you can deduct as business expenses, you can use them as a guideline to determine if the allowance paid to your employee is reasonable. The type of vehicle and the driving conditions are other factors used to determine whether an allowance is considered to be reasonable.

The CRA considers an allowance to be reasonable if **all** of the following conditions apply:

- The allowance is based only on the number of business kilometres driven in a year
- The rate per-kilometre is reasonable
- You did not reimburse the employee for expenses related to the same use of the vehicle. This does not apply to situations where you reimburse an employee for toll or ferry charges or supplementary business insurance, if you determined the allowance without including these reimbursements

When your employees fill out their income tax and benefit return, they do not include this allowance in income.

Reasonable allowance rates

For 2023, they are:

- 68¢ per kilometre for the first 5,000 kilometres driven
- 62¢ per kilometre driven after that

For the Northwest Territories, Yukon, and Nunavut, they are:

- 72¢ per kilometre for the first 5,000 kilometres driven
- 66¢ per kilometre driven after that

For prior-year rates, see [Automobile allowance rates](#).

▼ **Example: Employee who is paid an allowance at the prescribed rate**

You own a consulting firm. You have ten employees and four out of ten are engineers and are often on the road. The company does not own any vehicles. The engineers use their own vehicles when they are on the road for work. The company pays them an allowance based on the reasonable per-kilometre rate prescribed in section 7306 of the Income Tax Regulations.

In this example, the allowance is **not** considered a taxable benefit because:

- the allowance is based on the number of business kilometres driven in a year
- the rate per kilometre is considered reasonable
- the employee is **not** reimbursed for expenses related to the same use of the vehicle

The allowance should not be included in the employees' income.

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